REPORT TO:	**CABINET**
DATE:	**19 JULY 2018**
TITLE:	**HOUSING REVENUE ACCOUNT OUTTURN REPORT 2017/18**
PORTFOLIO HOLDERS:	**COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES** **COUNCILLOR MARK WILKINSON, PORTFOLIO HOLDER FOR HOUSING**
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This is not a Key Decision
It is on the Forward Plan as Decision Number I008561
The decision is not subject to Call-in Procedures for the following reason:
The recommendations are within the scope of the budget approved by Full Council in February 2017.
This decision will affect no ward specifically.

RECOMMENDED that Cabinet**:**

A Acknowledges the HRA outturn for 2017/18 as set out in the report as follows:

i) A favourable variation against the original budget adjusted for carryovers on operational/controllable budgets of £679,000 representing (-)1.28 percent of the gross Housing Revenue Account (HRA) budget.

ii) A total projected underspend of £3,908,000 representing (-)7.38 percent of the gross HRA budget.

B Notes working balances at 31 March 2018 of £14,104,000 in respect of the Housing Revenue Account and nil in respect of the Major Repairs Reserve.

C Approves carryovers of £222,000, as detailed in paragraphs 32 and 33 of the report, to meet commitments from 2017/18.

D Recognises the operational performance that has been achieved across all Council services during 2017/18.

REASON FOR DECISION

A To note the outturn against the Council's approved 2017/18 Housing Revenue Account and acknowledge the operational variations in light of the challenges the Council has faced in this financial year and may do so in future years.

B To note the application of the Council's Major Repairs Reserve (MRR), highlighting its relationship with the Housing Capital Programme.

BACKGROUND

1. In April 2012, the Housing Revenue Account (HRA) underwent significant changes following the introduction of self-financing. This created a closer link between housing revenue and capital expenditure and income

2. This report sets out the Council's financial performance against the agreed HRA Business Plan at 2 February 2017.

ISSUES/PROPOSALS

3. The objective is to maintain a minimum working balance of £4,436,000 as at 31 March 2018, and to ensure that the HRA Business Plan is sustainable over its life of 30 years

4. The outturn at 2017/18 includes an underspend of £679,000 on operational budgets (attached as Appendix A). The overall underspend for the year was £3,908,000 including non-operational adjustments at year end in respect of a lower than estimated direct revenue contribution in support of the Housing Capital Programme.

5. The HRA budget for 2017/18, including approved carryovers from 2016/17 of £671,000 and other approved adjustments, totalled £52,971,000. The operational underspend at 31 March 2018 represents a (-)1.28 percent variance against the budget and a (-)6.10 percent variation for non-operational adjustments, including a direct revenue contribution to the Capital Programme and year end financing changes.

6. The HRA supports the Housing Capital Programme through Direct Revenue Financing and by a contribution from the Major Repairs Reserve (MRR). The outturn includes a non-operational variance of (-)£3,229,000 due to a reduced direct revenue contribution to the Housing Capital Programme of (-)£4,632,000,

offset by an increased depreciation cost of £873,000 and lower than estimated income from major works of £530,000. Full details are given in Appendices A and B.

7. The HRA underpins the delivery of the modern homes programme requiring the acquisition of specialist asset management skills through a contract with Savills UK Ltd which includes investment planning, investment appraisal, and programme and project management to enable the implementation of the housing investment programme, publish information to tenants and to continue to maintain and invest in council dwellings.

8. At 31 March 2017 there was a nil balance on the MRR. The depreciation charge of £11.801 million for 2017/18 was used in full to support the Housing Capital Programme.

Operational Variances

9. In 2017/18 the operational variance against the original estimate totals £679,000 underspend (Appendix A). The key issues driving this variation are detailed below.

10. There is a favourable variance of (-)£331,000 from staffing vacancies and programme and project management fees in General Management. It has proved difficult to recruit to some posts resulting in vacancies in certain areas and where appropriate posts have been covered by temporary staff. Restructuring of staff teams has also provided savings against salary budgets.

11. Phase Two of Priority Estates was fully decanted by 31 March 2017 and Phase Three by 31 March 2018. Home loss payments and moving incentives arising from this process were (-)£703,000 less in 2017/18 than originally estimated. The claims are in large part statutory and also demand led. A total of £188,000 will need to be carried over to 2018/19 to fulfil potential commitments.

12. Rental income from housing stock is lower than estimated in part due to a higher level of right to buy sales and the subsequent realigning of the three year phasing for The Briars, Copshall Close and Aylets Field resulting in an adverse variance of £324,000.

13. In addition there was an underspend on general tenant moving incentives, compensation and removal costs of (-)£169,000.

14. Services to tenants and leaseholders benefitted from lower than expected fuel costs with the continuing installation of smart meters resulting in greater accountability to the consumer for heating and lighting. The saving on electricity costs for lighting was (-)£92,000 largely as a result of the installation of smart meters. Part of the savings in the cost of gas in the HRA of (-)£15,000 arose from the change to gas heating at Tanys Dell. The total underspend on utility and contract costs was (-)£184,000.

15. The HRA supports homeless applicants who are identified as future tenants by providing transitional funding. Due to rising demand for temporary and homeless accommodation there was an over spend of £296,000 (original budget £400,000). This is offset by grant income from the DCLG, of which £50,000 was apportioned to the HRA.

16. An unfavourable variance of £260,000 in respect of HTS (Property & Environment) Ltd pension arrangements due to a higher pension recovery rate than estimated.

17. Income from garages was £115,000 less than estimated due to an increase in void garages. However, income to the HRA for the administration of the garages in the General Fund was (-)£66,000.

18. Income from tenant and leasehold service charges was offset by the adjustment from 2015/16 service charge income resulting in an adverse variance of £161,000. However, income from management services including from pooling administration increased by (-)£97,000.

19. Delays to the major works schemes within the capital programme (see Capital Programmes Outturn Report 2017/18 later in the agenda) resulted in lower Leasehold contributions to major works than estimated (£530,000).

20. Additional costs to carry out asbestos work were offset by savings in other areas of the repairs and maintenance budget and in insurance costs which are demand led.

21. The bad debt provision original estimate was £300,000 in anticipation of rent arrears arising following the implementation of Universal Credit in Harlow. However, in 2017/18 the provision required was £85,000.

22. On 31 January 2017 the contract with Kier Harlow Ltd. supporting the Housing Service, providing housing maintenance, street scene and municipal services, came to an end. As previously reported to Cabinet in September 2013, provision was included within the HRA budget to accommodate costs associated with the re-procurement of these services. During 2017/18 costs incurred in respect of this work have been financed by the drawdown of £126,000 from the provision. This included staffing, legal, consultancy and landlord costs. The remaining balance is £52,000.

23. The original estimate for Right to Buy (RTB) sales in 2017/18 was 60 properties, whilst actual sales totalled 69. The continuing higher level of RTB sales was due to the Government Policy on Re-Invigorating Right to Buy which encourages tenants to purchase their properties through increased discounts and local marketing to tenants. This increased the income available from the administration of RTB's ((-)£12,000).

Non-Operational Variances

24. Non-operational variances totalling a favourable £3,229,000 relate to an increase in depreciation charge in the MRR of £873,000 (original estimate £10,928,000) and a decrease in the Direct Revenue Contribution to Capital of £4,632,000 (original estimate £6,136,000). The reduced contribution follows a lower than estimated outturn in the Housing Capital Programme (further information is contained within the Capital Outturn Report 2017/18 later on the agenda).

25. However, work carried forward into 2018/19 will substantially affect the amount of financing required from the HRA. New regulations effective from 2017/18 require the actual amount of depreciation to be charged to the HRA. In 2017/18 this was £11.801 million.

Major Repairs Reserve

26. The MRR is a separate statutory account which is used to ensure adequate resources are set aside (e.g. depreciation) to cover housing capital expenditure. The MRR may also be used to repay housing debt. In the latter incidence The Council has a housing debt of £208.837 million. Repayment is not anticipated over the life of the HRA Business Plan.

27. The movement on the MRR is as follows:

Table 1 – Major Repairs Reserve

MAJOR REPAIRS RESERVE			
Details	Original Estimate £000's	Outturn £000's	Variance £'000s
Balance at 1 April 2017	0	0	0
Transfers in – deprecation (net)	(-)10,928	(-)11,801	(-)873
Capital Spending on Housing Stock met by the Reserve	10,928	11,801	873
Balance at 31 March 2018	**0**	**0**	**0**

HRA Working Balance

28. In February 2017, the Council approved HRA Estimates for the current year that anticipated a Working Balance at 31 March 2018 of £8,133,000. The working balance at 31 March 2018 is £14,104,000 including the financing of carryovers from 2016/17 of £671,000 as set out below.

29. The increased HRA balance at 31 March 2018 is due in large part to the substantial reduction in anticipated expenditure in the capital programme (which reduced the direct revenue contribution from the HRA by £4,632,000 (Original estimate of £6,136,000 plus carryovers of £2,855,000). In addition the depreciation charge for 2017/18 was £873,000 more than the original estimate

(£10,928,000) and takes account of the re-allocation of depreciation (£138,000) in respect of garages attributed to the General Fund.

30. The balance on the HRA will be impacted in 2018/19 by revenue carryovers requested totalling £222,000 together with the capital carryovers (£5,187,000) which will require financing from an increased direct revenue contribution from the HRA.

Table 2 – Housing Revenue Account 2017/18

HOUSING REVENUE ACCOUNT 2017/18	
	£000's
Original Estimated balance at 31 March 2018	**8,133**
Increase reported at 2016/17 Outturn	5,589
Less 2016/17 carry forward requests approved July 2017	(-)3,526
Adjusted balance at 31 March 2017: current budget	**10,196**
Operational Service Budget variations	679
Non-operational Service Budget variations	3,229
Balance at 31 March 2018	**14,104**

Summary of Balances as at 31 March 2018

31. Changes to the regulations under self-financing mean changes in capital financing locally create different balances on the HRA and MRR than originally budgeted. Instead of the minimum working balance of £4,436,000, the HRA shows a balance of £14,104,000 as at 31 March 2018 and in line with the original estimate there is a nil balance Major Repairs Reserve.

Carry Forwards

32. It is proposed that the following items are carried forward to be spent in 2018/19:

Table 3 – Carried Forward Items

Home loss Payments Priority Estates	£13,000
Moving Incentives, Priority Estates	£10,000
Compensation Payments Priority Estates	£165,000
Outside contractors	£12,275
Void Security	£18,650
Maintenance of building – Fire Risk works	£2,896
Total	**£221,821**

33. The carryovers will facilitate the remaining liabilities in respect of Priority Estates and work in respect of void security including fire risk assessments in 2018/19. It ensures that the Council will not be in breach of its policy to pay compensation and other costs to tenants who are downsizing.
34. In addition, the capital programme report shows a requirement to carry forward work to 2018/19 totalling £5,187,000 to meet outstanding commitments.

35. The impact of revenue and capital carry forwards on the HRA budget will be reported throughout 2018/19 as part of the budget monitoring process.

Significant Risks/Opportunities

36. The Council developed a 30-year Business Plan as a result of the changes introduced in 2012 and the move to self-financing, in order to ensure the long-term sustainability of the HRA. This is subject to on-going review.

37. The Welfare Reform and Work Act 2016 required social landlords to decrease rents annually by 1 percent over the next four financial years (2016/17 – 2019/20). This has challenged councils to make efficiencies in order to deliver sustainable services.

38. As a responsible social landlord, the Council has no greater asset management priority than ensuring the health, safety and welfare of its tenants via full compliance with its statutory, regulatory and legal obligations across the full range of issues related to fire, gas, electrical and water safety as well as asbestos management.

39. The following risks have been identified which could affect the HRA Business Plan:

    a) The outcome of the Grenfell Tower Public Inquiry on landlords across the country.

    b) Statutory rent reduction of minus one percent until 2019/20. Thereafter increases of CPI plus one percent.

    c) HTS pension adjustment and re-valuation implications if appropriate.

    d) Welfare Reform – the Government’s reduction in benefits to non-working families may have an adverse impact on tenants’ ability to pay rent. Additionally, the County Council has reduced Housing Related Support to the Council.

    e) Continuing development of a Capital Programme to deliver decent homes in partnership with contractors, and the need to deal with unexpected outcomes, such as fire safety and regulation.

    f) The result of the EU Referendum has brought uncertainties regarding the economy, with low interest rates and inflationary pressure on expenditure.

g) The Homelessness Reduction Act 2017, which was implemented from April 2018, places a legal duty on councils to take steps to prevent families from becoming homeless, with a key element being to intervene to prevent homelessness happening in the first place, rather than focusing on accommodating people who are already homeless. This will have financial implications for the Council in terms of the increased new duties that it will be expected to provide.

h) The Government has introduced new plans to fix the 'broken housing market and build more homes across England'. This includes measures to:

   i) Reduce the obstacles to house building and help local authorities, developers and Small and Medium Enterprise builders build the homes Britain needs.

   ii) Improve affordability and protections for renters and home purchasers. Amongst many headlines, there is a view that councils existing/new 'Housing Companies' will be subject to 'Right to Buy' processes.

IMPLICATIONS

Place (Includes Sustainability)
None specific.
Author: Graeme Bloomer, Head of Place

Finance (Includes ICT)
As contained within the report.
Author: Simon Freeman, Head of Finance

Housing
As contained within the report.
Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)
None specific.
Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)
None specific.
Author: Colleen O'Boyle, Interim Head of Governance

Appendices

Appendix A – HRA Operational Variances
Appendix B – Housing Revenue Account

Background Papers

CIPFA Code of Practice 2012/13.
CIPFA Financial Advisory Network paper “HRA Depreciation, Impairment and Valuation Losses (England)”.

Glossary of terms/abbreviations used

DCLG – Department of Communities and Local Government
DRC – Direct Revenue Contribution
HRA – Housing Revenue Account
HTS – Harlow Trading Services (Property & Environment) Ltd
MRR – Major Repairs Reserve
RTB – Right to Buy